



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20350

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SECNAV INSTRUCTION 5840.5

From: Secretary of the Navy

Subj: Department of Defense Foreign Tax Relief Program

Encl: (1) DOD Directive 5100.64 of ^{June 12 1979} ~~August 12, 1970~~, same subject

1. Purpose. To implement the Department of Defense Foreign Tax Relief Program.

2. Action. Pursuant to paragraph ^{E.S.} ~~VI.E.~~ of Enclosure (1), the Office of the General Counsel is designated as the Cognizant Office charged with continuing responsibility for supervising and monitoring the implementation of the Department of Defense Foreign Tax Relief Program within the Department of the Navy. The Office of the General Counsel is hereby delegated authority commensurate with the responsibility of the Cognizant Office.

Charles A. Bowsler

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ASSISTANT SECRETARY OF THE NAVY
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June 12, 1979
NUMBER 5100.64

GC, DoD

Department of Defense Directive

SUBJECT DoD Foreign Tax Relief Program

- References:
- (a) DoD Directive 5100.64, "Department of Defense Foreign Tax Relief Program," August 12, 1970 (hereby canceled)
 - (b) DoD Instruction 2050.1, "Delegated Approval Authority to Negotiate and Conclude International Agreements," July 6, 1977
 - (c) DoD Directive 5000.35, "Defense Acquisition Regulatory System," March 8, 1978
 - (d) DoD Directive 5525.1, "Status of Forces Policies and Information," January 20, 1966

A. REISSUANCE AND PURPOSE

This Directive (1) reissues reference (a), without substantive change, to correct superseded references; and (2) defines the tax relief policy of the Department of Defense, designates the organizational element which has continuing responsibility for the overall direction of the DoD Foreign Tax Relief Program, delineates the responsibilities of other organizational elements to implement and monitor the program, and requires the preparation and maintenance of specified foreign country tax law studies in order to facilitate the institution of statistical reporting procedures.

B. APPLICABILITY AND SCOPE

1. The provisions of this Directive apply to the Office of the Secretary of Defense, the Military Departments, the Organization of the Joint Chiefs of Staff, the Unified Command, and the Defense

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Agencies (hereafter referred to as "DoD Components").

2. The policy set forth in this Directive applies to:

a. Military functions expenditures by the Department of Defense, and

b. Expenditures by nonappropriated fund activities of the Department of Defense that are subject to taxes imposed by:

(1) Foreign countries in which U.S. military forces are regularly stationed (other than attache and other military personnel assigned to a U.S. diplomatic mission); and

(2) Any other foreign country in which all or most U.S. defense activities, in a collective sense, are conducted in the interest of the common defense or otherwise significantly improve the military security of that country.

3. The policy set forth in this Directive also applies to Military Assistance Program (MAP) expenditures in all countries.

C. DEFINITIONS

1. Regardless of how a charge is denominated in foreign law or regulation, the words "tax" and "taxes" include all direct or indirect foreign customs duties, import and export taxes, excises, fees and other charges imposed at the national, local or intermediate level of a foreign country other than charges for services rendered or for other consideration received.

2. For example, taxes include but are not limited to purchase tax, sales tax, use tax, gross receipts tax, stamp tax, transfer tax, transaction tax, turnover tax, value added tax, service tax, trade tax, business tax, license tax, transportation tax, circulation tax, luxury tax, possession tax, production tax, registration tax, consumption tax, gasoline tax, real property tax, personal property tax, and gross income tax.

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3. The word "relief" includes any method, technique, or procedure by which the ultimate economic burden of a tax on DoD funds may be avoided or otherwise remedied, such as exemption, refund, or drawback.

D. POLICY

It is the policy of the Department of Defense to secure, to the maximum extent practicable, effective relief from all foreign taxes wherever the ultimate economic burden of those taxes would, in the absence of such relief, be borne by funds appropriated or allocated to the Department of Defense (including MAP appropriations) or under the control of its nonappropriated fund activities. In those cases in which the total economic burden of a tax not readily identifiable in the normal course of business is so small that it may be considered a de minimis matter, or in which the administrative burden of securing effective relief from a tax in a particular instance would be out of proportion to the amount of the relief obtained, tax relief shall be considered impracticable.

E. RESPONSIBILITIES

1. The General Counsel of the Department of Defense shall:

a. Provide overall supervision and direction of the DoD Foreign Tax Relief Program.

b. Resolve any significant issues relating to the program.

c. Designate those countries that come within subparagraph B.2.b.(2) of this Directive.

d. Direct the preparation of country tax law studies for countries not within the scope of subsection B.2. of this Directive.

e. Designate the DoD member of the Inter-Agency Committee on Foreign Tax Relief, established by the Department of State.

2. The Assistant Secretary of Defense (International Security Affairs) shall monitor the negotiation and conclusion of international agreements subject to the Secretary's approval authority under DoD Instruction 2050.1

(reference (b)), to ensure that such agreements are compatible with the policy set forth in this Directive and any implementing guidance concerning that policy issued by the General Counsel of the Department of Defense.

3. The Chairman, Defense Acquisition Regulatory Council, shall coordinate with the General Counsel of the Department of Defense before the issuance, amendment, or revision of any portion of the Defense Acquisition Regulatory System (or regulation, directive, circular, or other publication within the scope of DoD Directive 5000.35 (reference (c)) that pertains to the implementation of the DoD Foreign Tax Relief Program.

4. The Assistant Secretary of Defense (Comptroller) shall perform such fiscal functions as may be required to implement the DoD Foreign Tax Relief Program, including advice and assistance in the institution of procedures for collecting data, compiling reports, and performing internal audits.

5. The Secretary of each of the Military Departments and the Director of each of the Defense Agencies shall issue instructions or regulations that charge a single office within the respective Military Department or Defense Agency (referred to as the "Cognizant Office") with continuing responsibility for supervising and monitoring the implementation of the DoD Foreign Tax Relief Program within such Department or Agency. Such instructions or regulations shall delegate to the Cognizant Office authority commensurate with its responsibility.

6. Commanders of Unified Commands, as appropriate, shall promulgate management procedures to guide and coordinate the administration of the DoD Foreign Tax Relief Program throughout their respective area commands.

7. For each foreign country that comes within the scope of subsection B.2. of this Directive, a single Military Commander shall be designated by the Commander of the Unified Command. The designated Military Commander shall be the same designated under the procedures in subsection IV.C. of DoD Directive 5525.1 (reference (d)). The designated Military Commander shall:

a. Make and maintain a current country tax law study in accordance with section F. of this Directive.

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b. Be the single point of contact for U.S. contracting officers and activities for the investigation and resolution of specific matters that relate to the foreign tax relief program within the country for which the Military Commander is designated and for the forwarding of major problems affecting that program through proper channels to the General Counsel of the Department of Defense.

c. Provide liaison with the responsible U.S. diplomatic mission on current tax relief problems and, where appropriate, with local foreign tax authorities.

F. COUNTRY TAX LAW STUDIES

1. The taxes covered by each country tax law study shall be limited to those which in the absence of tax relief, would affect, or would appear to affect, U.S. Government expenditures, even as a de minimis matter. (All such taxes are hereafter referred to as "applicable taxes.") The formats of the studies for all countries shall be similar within each Unified Command insofar as practicable, and designed to facilitate statistical reporting procedures. The studies shall be prepared and maintained with a view to the practical utilization of the studies by U.S. contracting officers and activities for purposes of making reliable estimates of the total amount of taxes applicable to any particular contract and the amount thereof for which tax relief is available.

2. Each country tax law study shall consist of the following:

a. A general survey of all applicable taxes, together with translations, as appropriate, of the salient features of the law or regulations imposing those taxes.

b. For each applicable tax, a summary statement containing: its name; its rate (or rates); the taxing authority (national, provincial, or municipal); the legal incidence of the tax (the nature of the taxpayer or other entity liable for the payment of the tax to the taxing authority under the law of the country); its description (including the base or bases on which the tax is imposed); the applicability of the tax to various types of contracts (supplies, services, or construction) in the event the tax is applicable to only one or several of such types of contracts; the applicability of the tax to the prime contract,

as well as to any subcontracts or purchase orders issued by the prime contractor or subcontractor; the applicability of the tax to contractor and subcontractor personnel; the variation, if any, of the applicability of the tax depending upon the domicile of the contractor or contractor personnel, such as United States, host country, or third country; any applicable exemptions or deductions of significance; and the method of collection of the tax.

c. The basis upon which it is concluded that each applicable tax, in absence of tax relief, would affect, or would appear to affect, U.S. Government expenditures; and any evidence of the degree to which its ultimate economic burden would, in absence of tax relief, be borne by the U.S. Government rather than be absorbed by others.

d. The substantive tax relief, if any, from each applicable tax that is available to the U.S. Government either by international agreements in force or under the tax law or other regulation of the country; the procedures which may be used to obtain any such relief; the requirement, if any, for the issuance of a tax exemption certificate by the military procuring agency or by an agency of the country to secure an exemption; the entitlement, if any, of the taxpayer to interest on any tax refund made by the host country; the credits, if any, that may be available against any other taxes otherwise payable by the taxpayer resulting from the payment of the tax under analysis; the approximate amount of the tax that should be involved in a particular case, if such can be estimated, taking into account the costs of filing a claim for refund by a contractor to warrant filing such a claim; and a brief narration of any significant problems which have occurred in attempting to obtain relief in particular cases.

e. A conclusion with regard to the adequacy of current tax relief measures; and such recommendations as may be appropriate for more efficient implementation of the policy set forth in this Directive.

3. Appended to each country tax law study shall be a verbatim quotation of all provisions relating to tax relief afforded by the country that are contained in international agreements in force.

4. One copy of each country tax law study shall be forwarded to the General Counsel of the Department of Defense and to each of the Cognizant Offices of the

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Military Departments and Defense Agencies within 30 days after its approval by the designated Military Commander. The information contained in the studies shall be disseminated by the Cognizant Offices to U.S. contracting officers and activities when required.

5. Country tax law studies shall be subject to continuing review. When there is a significant change in country tax laws, regulations, tax relief procedures, or in pertinent international agreements in force, the corresponding revision shall be promptly forwarded by the designated Military Commander to each of the offices referred to in subsection F.4.

G. INFORMATION REQUIREMENTS

1. The reporting requirement contained in section F. relating to the submission of country tax law studies and revisions thereof is assigned Report Control Symbol DDSD(AR) 1036.

2. Each January a summary of significant activities during the preceding year in implementation of the DoD Foreign Tax Relief Program shall be furnished by the Heads of Cognizant Offices to the General Counsel of the Department of Defense. The summary, in narrative form, shall include actions taken by the Cognizant Office to discharge its responsibility for supervising and monitoring the implementation of the foreign tax relief program within its Military Department or Defense Agency, and for disseminating the information contained in country tax law studies to U.S. contracting officers and activities. The reporting requirement contained in this subsection is assigned Report Control Symbol DDGC(A)1198.

3. Each January a summary of significant activities during the preceding year of the administration of the foreign tax relief program shall be furnished by Commanders of the Unified Commands to the General Counsel of the Department of Defense. The summary, in narrative form, shall include actions taken by the Unified Command to discharge its responsibility to supervise and coordinate the preparation and maintenance of country tax law studies. The reporting requirement contained in this subsection is assigned Report Control Symbol DDGC(A)1199.

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H. EFFECTIVE DATE

This Directive is effective immediately. Forward two copies of implementing documents to the General Counsel of the Department of Defense within 120 days.

A handwritten signature in cursive script, appearing to read "C. W. Duncan, Jr.", written in black ink.

C. W. Duncan, Jr.
Deputy Secretary of Defense

VIII. REPORTS

A. The reporting requirement contained in Section VII relating to the submission of country tax law studies and revisions thereof is assigned the Report Control Symbol DD-SD(AR)1036.

* B. During January of each year, commencing with January 1973, *
* a summary of significant activities during the immediately *
* preceding year of each of the Cognizant Offices in implemen- *
* tation of the Department of Defense Foreign Tax Relief Program *
* shall be furnished by the head thereof to the General Counsel of *
* the DoD. The summary, in narrative form, will include actions *
* taken by the Cognizant Office to discharge its responsibility *
* (1) for supervising and monitoring the implementation of the *
* foreign tax relief program within its Military Department or *
* Defense Agency, pursuant to subsection VI.E. of this Directive, *
* and (2) for disseminating the information contained in country *
* tax law studies to U.S. contracting officers and activities as *
* required, pursuant to subsection VII.E. of this Directive. The *
* reporting requirement contained in this subsection is assigned *
* the Report Control Symbol DD-GC(A)1198. *

* C. During January of each year, commencing with January 1973, *
* a summary of significant activities during the immediately *
* preceding year of each of the Unified Commands assigned *
* responsibility to guide and coordinate the administration of *
* the foreign tax relief program, pursuant to subsection VI.F. *
* of this Directive, shall be furnished by the Commander thereof *
* to the General Counsel of the DoD. The summary, in narrative *
* form, will include actions taken by the Unified Command to *
* discharge its responsibility to supervise and coordinate the *
* preparation and maintenance of country tax law studies, pursuant *
* to subsection VII.A. of this Directive. The reporting requirement *
* contained in this subsection is assigned the Report Control *
* Symbol DD-GC(A)1199. *

IX. EFFECTIVE DATE AND IMPLEMENTATION

A. This Directive is effective immediately. Two (2) copies of all implementing documents required to be issued by the Military Departments and Defense Agencies in subsection VI. E. of this Directive shall be forwarded to the General Counsel of the DoD, for approval prior to issuance, within ninety (90) days from the effective date hereof. Two (2) copies of all implementing procedures promulgated by Commanders of Unified Commands in accordance with subsection VI. F. of this Directive will be forwarded to the General Counsel of the DoD within sixty (60) days from the effective date hereof.

* ~~--B--Country tax law studies required under Section VII of this --~~
* ~~-----Directive shall be completed and approved by the Designated~~
* ~~-----Commanding Officer as rapidly as possible and in any event --~~
* ~~-----within one (1) year from the effective date of this Directive, --~~
Tax law studies for those other countries determined by the General Counsel of the DoD to be within the scope of subsection V. A. of this Directive shall be completed and approved by the Designated Commanding Officer as rapidly as possible and in any event within one (1) year from the date of such determination.



Deputy Secretary of Defense

Enclosure:

Memorandum for the Acting General Counsel of the DoD
from the Deputy Secretary of Defense, March 13, 1970



5100.64 (Encl 1)
Aug 12, 70

THE DEPUTY SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

MAR 13 1970

MEMORANDUM FOR THE ACTING GENERAL COUNSEL,
DEPARTMENT OF DEFENSE

SUBJECT: GAO Report to the Congress on the Questionable Payment
of Taxes to Other Governments on U.S. Defense Activities
Overseas, January 20, 1970 (B-133267)

The Office of the General Counsel of the Department of Defense is hereby designated the central office within the Office of the Secretary of Defense to serve as the point of continuing responsibility for the over-all direction of Department of Defense participation in the U.S. foreign tax relief program. As such, your office is charged with the primary responsibility to oversee and ensure that the Department of Defense implements the commitments it has undertaken in the joint State/Defense reply, dated February 16, 1970, to the subject GAO Report.

You are authorized and directed to establish a Defense Committee On Foreign Taxation (DECOFT) in order to assist in the discharge of these Department of Defense responsibilities for foreign tax relief matters, and to designate the Chairman thereof. Those departments, offices, and agencies of the Department of Defense which perform significant functions in connection with foreign tax relief matters should be requested by you to name one or more representatives to serve as members of DECOFT. DECOFT shall continue in existence for ~~2~~ ² ~~years from today's date~~ ^{JUNE 30, 1973} or until completion of its mission, whichever is earlier.

You are also authorized to designate the Department of Defense member of the standing State-Defense group on foreign taxation after it has been established by the Department of State.